MKS INSTRUMENTS INC
Form 10-Q
November 06, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(MARK ONE)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2018

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _______________ to _______________

Commission file number 0-23621

MKS INSTRUMENTS, INC.

(Exact name of registrant as specified in its charter)

Massachusetts (State or other jurisdiction of incorporation or organization)	04-2277512 (I.R.S. Employer Identification No.)
2 Tech Drive, Suite 201, Andover, Massachusetts (Address of principal executive offices)	01810 (Zip Code)

Registrant’s telephone number, including area code (978) 645-5500

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of October 30, 2018 the registrant had 53,986,114 shares of common stock outstanding.

MKS INSTRUMENTS, INC.

FORM 10-Q

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

MKS INSTRUMENTS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share data)

(Unaudited)

ASSETS	September 30, 2018	December 31, 2017
Current assets:		
Cash and cash equivalents, including restricted cash	$ 399,850	$ 333,887
Short-term investments	219,776	209,434
Trade accounts receivable, net of allowance for doubtful accounts of $4,761 and $4,135 at September 30, 2018 and December 31, 2017, respectively	318,470	300,308
Inventories, net	399,077	339,081
Other current assets	75,298	53,543
Total current assets	1,412,471	1,236,253
Property, plant and equipment, net	180,182	171,782
Goodwill	587,861	591,047
Intangible assets, net	331,288	366,398
Long-term investments	10,404	10,655
Other assets	42,390	37,883
Total assets	$ 2,564,596	$ 2,414,018

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Short-term debt	$ 6,130	$ 2,972
Accounts payable	81,486	82,518
Accrued compensation	74,472	96,147
Income taxes payable	12,942	21,398
Deferred revenue	9,136	12,842
Other current liabilities	78,327	73,945

Net Income(Loss). Net income was $4.0 million during the first six months of 2007, an increase of $2.0 million, or 100.0%, as compared to net income of $2.0 million during the first six months of 2006. The increase was primarily attributable to a $2.4 million increase in operating profit attained and is net of $1.2 million in non-cash expenses resulting from an equity grant under our Long-Term Incentive Plan in November of 2006 which we did not incur in the first six months of 2006.

Deferred Cemetery Revenue. Deferred cemetery revenues, net, increased $9.3 million, or 4.7%, in the first six months of 2007, from $196.1 million as of December 31, 2006 to $205.4 million as of June 30, 2007. In the comparable period in 2005, deferred cemetery revenues, net, increased $6.4 million, or 3.8% in the first six months of 2006, from $167.8 million as of December 31, 2005 to $174.2 million as of June 30, 2006. The net increase in the first six months of 2007 was primarily attributable to an increase in sales of pre-need cemetery products and services that were not delivered or performed in the first six months of 2007. We added $37.0 million in pre-need sales of cemetery merchandise and services, net of deferred costs and cancellations, to our pre-need sales backlog during the first six months of 2007 as compared to $25.1 million added during the first six months of 2006. These increases were offset by revenues recognized, net of costs, of $26.1 million, including accumulated merchandise trust earnings, during the first six months of 2007 related to the delivery and performance of pre-need cemetery merchandise and services as compared to $18.6 million of revenues recognized in the first six months of 2006.

Liquidity and Capital Resources

Overview. Our primary short-term operating liquidity needs are to fund general working capital requirements and maintenance capital expenditures. Our long-term operating liquidity needs are primarily associated with acquisitions of cemetery properties and the construction of mausoleum crypts and lawn crypts on the grounds of our cemetery properties. We may also construct funeral homes on the grounds of cemetery properties that we acquire in the future. Our primary source of funds for our short-term liquidity needs are cash flow from operations and income from perpetual care trusts. Our primary source of funds for long-term liquidity needs are long-term bank borrowings and the issuance of additional common units and other partnership securities, including debt, subject to the restrictions in our credit facility and under our senior secured notes.

We believe that cash generated from operations and our borrowing capacity under our credit facility, which is discussed below, will be sufficient to meet our working capital requirements, anticipated capital expenditures and scheduled debt payments for the foreseeable future. In 2007, we anticipate that we will spend $2.8 million for the construction of mausoleums. Additionally, we anticipate ongoing annual capital expenditure requirements of between approximately $1.7 million and $2.9 million for the foreseeable future, of which between $1.1 million and $2.1 million is for maintenance of our existing cemeteries and between $0.6 million and 0.8 million is for mausoleum and lawn crypt construction and other expansion, excluding acquisitions. The estimate for cemetery maintenance capital expenditures would increase if we were to acquire additional cemetery properties.

One of our goals is to grow through the acquisition of high-quality cemetery properties. On November 1, 2005, StoneMor acquired 22 cemeteries and six funeral homes from Service Corporation International (NYSE: SCI) for $12.93 million. StoneMor paid $7.03 million in cash and 280,952 StoneMor common units representing limited partner interests, representing the additional

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$5.9 million. In addition, StoneMor assumed the merchandise and service liabilities associated with certain pre-arranged bonded contracts related to the properties. Additionally, on September 28, 2006, we completed the acquisition of 21 cemeteries and 14 funeral homes from Service Corporation International (NYSE: SCI) and certain other entities for $11.8 million. We paid $5.9 million in cash and 275,046 in common units representing limited partner interests, representing the additional $5.9 million. We acquired two additional cemeteries during the fourth quarter of 2006 with an aggregate purchase price of approximately $1.3 million.

Our ability to satisfy our debt service obligations, fund planned capital expenditures, make acquisitions and pay distributions to partners will depend upon our future operating performance. Our operating performance is primarily dependent on the sales volume of customer contracts, the cost of purchasing cemetery merchandise that we have sold, the amount of funds withdrawn from merchandise trusts and perpetual care trusts and the timing and amount of collections on our pre-need installment contracts.

Cash Flow from Operating Activities. Cash flows provided by operating activities were $9.7 million in the first six months of 2007 compared to cash flows provided by operating activities of $5.5 million during the first six months of 2006. Cash flows provided by operating activities in the first six months of 2007 increased from the cash flows provided by operating activities in the first six months of 2006 primarily due to an increase in net income of $2.0 million which is net of $2.3 million unit-based compensation, a $1.8 million increase in deferred cemetery revenue and a decrease in cash used to satisfy merchandise liabilities of $3.0 million, partially offset by an increase in cash used for accounts receivable of $5.0 million associated with an increase in pre-need contracts written during the first six months of 2007.

Cash Flow from Investing Activities. Net cash used in investing activities was $3.2 million in the first six months of 2007, an increase of $0.4 million, as compared to cash used in investing activities of $2.8 million in the first six months of 2006. This increase in cash used in investing activities was primarily attributable to the net proceeds from the $2.1 million sale of one of our funeral homes in the first six months of 2006 partially offset by decreases in cash used in the first six months of 2007 for additions to cemetery property of $1.3 million and for additions to property and equipment of $0.5 million . We did not sell any locations in the first six months of 2007.

Cash Flow from Financing Activities. Net cash used in financing activities was $4.9 million in the first six months of 2007 as compared to cash used in financing activities of $4.8 million in the first six months of 2006. The cash flow used in financing activities in the first six months of 2007 was primarily attributable to the February and May unit holder distributions of $9.2 million offset by increased net borrowings from our long-term debt facilities of $4.6 million. The cash flow used in financing activities in the first half of 2006 was primarily attributable to the February and May unit holder distributions of $8.5 million partially offset by increased borrowings from our revolving credit facility of $3.8 million.

Credit Facility. Concurrent with the closing of our initial public offering in September 2004, StoneMor Operating LLC, which is our operating company, and its present and future subsidiaries, all as borrowers, entered into a new $35.0 million credit agreement. The credit agreement consists of a $12.5 million revolving credit facility and a $22.5 million acquisition line of credit. Borrowings under our revolving credit facility were originally due and payable three years after the date of the credit agreement, and borrowings under the acquisition facility were originally due and payable four years after the date of the credit agreement. On September 28, 2006, we entered into a second amendment of the credit facility which extended the due date on both lines of credit to September 20, 2009. On May 7, 2007, the Company entered into a third amendment of the credit facility which adjusted the credit facility by increasing the revolving credit line to $17.5 million and reducing the acquisition line of credit to $17.5 million until June 29, 2007. On June 29, 2007, we entered into a fourth amendment of the credit facility which extended the adjustment period of the third amendment from June 29, 2007 to July 31, 2007. On July 31, 2007, we entered into a fifth amendment of the credit facility which extended the adjustment period of the third amendment from June 29, 2007 to August 15, 2007. We may prepay all loans under the credit agreement at any time without penalty, although our acquisition line may be subject to hedging arrangements with attendant termination fees. Any amounts repaid on the acquisition line cannot be reborrowed. We are required to reduce borrowings under our revolving credit facility that are designated for the purpose of funding a regularly scheduled quarterly distribution to the unitholders to not more than $5.0 million for a period of at least 30 consecutive days at least once during each consecutive 12-month period prior to the maturity of the revolving credit facility. As of June 30, 2007 we had outstanding borrowings of $12.6 million under our revolving credit line. As of June 30, 2007, we had $15.1 million outstanding under our acquisition line of credit from which we borrowed $5.25 million for the acquisition of 22 cemeteries and 6 funeral homes from Service Corporation International in November 2005 and $9.0 million for the acquisition of 21 cemeteries and 14 funeral homes from Service Corporation International, and certain other entities, in September 2006.

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The revolving credit facility is available for ongoing working capital needs, capital expenditures, distributions and general partnership purposes. Amounts borrowed and repaid under the revolving credit facility may be borrowed in an amount that does not exceed 80% of our eligible accounts receivable. Eligible accounts receivable are defined as gross accounts receivable represented by approved installment agreements for pre-need sales net of collection reserves, imputed interest earnings, funds due to perpetual care and merchandise trusts, unpaid sales commissions and other reserves as may be required by the agent for the lenders.

The acquisition facility is available to finance acquisitions of companies in our line of business that have been approved by our board of directors. We are required to obtain the approval of the requisite lenders for any acquisition exceeding $2.5 million and for any series of acquisitions exceeding $20.0 million in any consecutive 12 months, but this consent may not be unreasonably withheld. Interest under the acquisition facility is payable quarterly for the first 12 months after each borrowing. We will repay the then outstanding borrowings in equal quarterly installments based on a six-year amortization schedule, with the first quarterly principal payment beginning 15 months after each borrowing and subsequent quarterly principal payments continuing on each 3 month interval from the previous quarterly principal payment and with a balloon payment for any unpaid amount due at the maturity of the acquisition facility.

Borrowings under the credit agreement rank pari passu with all of our other senior secured debt, including the senior secured notes issued concurrently with our initial public offering, subject to the description of the collateral securing the credit agreement described below. Borrowings under the credit agreement are guaranteed by the partnership and our general partner.

Our obligations under the revolving facility are secured by a first priority lien and security interest in specified receivable rights, whether then owned or thereafter acquired, of the borrowers and the guarantors and by a first priority lien and security interest in substantially all assets other than those receivable rights of the borrowers and the guarantors, excluding trust accounts and certain proceeds required by law to be placed into such trust accounts and funds held in trust accounts, our general partner s general partner interest in the partnership and our general partner s incentive distribution rights under our partnership agreement. These assets will secure the acquisition facility and our senior secured notes, as described below under Senior Secured Notes. The specified receivable rights include all accounts and other rights to payment arising under customer contracts or agreements (other than amounts required to be deposited into merchandise and perpetual care trusts) or management agreements, and all inventory, general intangibles and other rights reasonably related to the collection and performance of these accounts and rights to payment.

Our obligations under the acquisition facility are secured by a first priority lien and security interest in substantially all assets, whether then owned or thereafter acquired, other than specified receivable rights of the borrowers and the guarantors, excluding trust accounts and certain proceeds required by law to be placed into such trust accounts and funds held in trust accounts, our general partner s general partner interest in the partnership and our general partner s incentive distribution rights under our partnership agreement, and a third party priority lien and security interest in those specified receivable rights of the borrowers and the guarantors. The senior secured notes will share pari passu in the collateral securing the acquisition facility.

Depending on the type of loan, indebtedness outstanding under the revolving credit facility bears interest at a rate based upon the Base Rate or the Eurodollar Rate plus an applicable margin ranging from 0.00% to 1.00% and 2.50% to 3.50% per annum, respectively, depending on our ratio of total debt to consolidated cash flow. The Base Rate is the higher of the federal funds rate plus .050% or the prime rate announced by Fleet National Bank, a Bank of America company. The Eurodollar Rate is to be determined by the administrative agent according to the new credit agreement. The interest will be determined and payable quarterly. We incur commitment fees ranging from 0.375% to 0.500% per annum, depending on our ratio of total debt to consolidated cash flow, determined and payable quarterly based on the unused amount of the credit facilities.

We are required to use the net cash proceeds from the sale of any assets, the incurrence of any indebtedness or the issuance of any equity interests in the partnership or any subsidiary of the partnership to repay amounts outstanding under the credit agreement and our senior secured notes, pro rata based on the percentage share of the aggregate amounts outstanding, provided that we may use the proceeds from the sale of any assets to purchase capital assets or fund permitted acquisitions within 180 days of such sale and we may use the proceeds from any issuance of equity interests by the partnership to fund permitted acquisitions to the extent such equity interests are issued in connection with a permitted acquisition that is completed within 180 days before or after the receipt of such proceeds.

The credit agreement prevents us from declaring dividends or distributions if any event of default, as defined in the new credit agreement, occurs or would result from such declaration. The following will be an event of default under the credit agreement:

- failure to pay any principal, interest, fees, expenses or other amounts when due;

- failure of any of our representations and warranties to be materially correct;

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failure to observe any covenant included in the credit agreement beyond specified cure periods in specified cases;

the occurrence of a default under other indebtedness of the partnership, our general partner, our operating company or any of our other subsidiaries;

the occurrence of specified bankruptcy or insolvency events involving the partnership, our operating company, our general partner or our other subsidiaries;

a change of control; or

the entry of judgments against the partnership, our general partner, our operating company or any of our other subsidiaries in excess of certain allowances.

Change of control is defined in the credit agreement as the occurrence of any of the following events:

any two of our chairman, chief executive officer or chief financial officer on the date of the credit agreement cease to hold such positions unless approved by the lenders under the credit agreement;

any person or group that did not hold any equity interests in the general partner or the partnership on the date of the credit agreement acquires 20% or more of the equity interests in the partnership or the general partner;

the general partner ceases to be our sole general partner;

the partnership ceases to own 100% of the operating company; or

the operating company ceases to own 100% of the other borrowers.

The credit agreement contains financial covenants requiring us to maintain, on a rolling four-quarter basis:

a ratio of consolidated cash flow, as defined in the credit agreement, to consolidated interest expense of not less than 3.5 to 1.0 for the four most recent quarters;

- a ratio of total funded debt on the last day of each quarter to consolidated cash flow of not more than 3.5 to 1.0 for the four most recent quarters (except as described below); and

- consolidated cash flow of at least $21.0 million. Our minimum consolidated cash flow will be increased by 80% of any consolidated cash flow acquired in an acquisition.

The credit agreement was amended in November 2004 to amend the leverage ratio from 3.5 to 1 to 3.75 to 1 until September 30, 2005 at which time it reverted back to 3.5 to 1. As of June 30, 2007, the Company was in compliance with all debt covenants.

For purposes of determining our compliance with the covenants described above, total funded debt includes all indebtedness for borrowed money (except that if we reduce borrowings under our revolving credit facility that are designated for the purpose of funding a regularly scheduled quarterly distribution to unitholders to not more than $5.0 million for a period of at least 30 consecutive days at least once during each consecutive 12-month period prior to the maturity of the revolving credit facility, then the amount of outstanding revolving loans to be included in total funded debt will be an amount not to exceed $5.0 million), purchase money indebtedness, obligations under letters of credit, capitalized leases, if any, and the deferred purchase price of any property or services. Consolidated cash flow is based on our adjusted EBITDA and is defined in the credit agreement as net income plus, among other things:

- interest expense;

- taxes;

- depreciation and amortization;

- non-cash cost of land and crypts;

- extraordinary losses;

- other non-cash items;

- increase (decrease) in deferred cemetery revenues, net (excluding deferred margin);

- increase (decrease) in accounts receivable;

- increase (decrease) in merchandise liability; and increase (decrease) in merchandise trust (excluding any change in trust income receivable).

Consolidated cash flow is adjusted to exclude, among other things, extraordinary gains, gains from sales of assets outside the ordinary course of business and non-cash items.

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The credit agreement limits the ability of the partnership, our general partner, our operating company and any of our other subsidiaries, among other things, to:

- enter into a new line of business;
- enter into any agreement of merger or acquisition;
- sell, transfer, assign or convey assets;
- grant certain liens;
- incur or guarantee additional indebtedness;
- make certain loans, advances and investments;
- declare and pay dividends and distributions;
- enter into certain leases;
- enter into transactions with affiliates; and
- make voluntary payments or modifications of indebtedness.

On April 3, 2007, StoneMor Operating LLC, a Delaware limited liability company (the Operating Company) and a wholly-owned subsidiary of StoneMor, entered into a commitment letter (the Commitment Letter) with Bank of America, N.A. (Bank of America) and Banc of America Securities LLC (BAS). On April 3, 2007, the Operating Company, Bank of America and BAS entered into a fee letter (the Fee Letter) in connection with and in consideration of agreements contained in the Commitment Letter. Bank of America is currently the administrative agent and one of the lenders under the credit agreement as described above.

Pursuant to the Commitment Letter, Bank of America has agreed to be the sole administrative agent for a $65.0 million senior secured credit facility to the Operating Company and all of its existing and future direct and indirect subsidiaries (collectively, the Borrowers) and has committed to lend to the Borrowers up to $25.0 million of the Senior Credit Facility, subject to certain terms and conditions. Additionally, BAS has undertaken to act as sole lead arranger and sole book manager for the senior credit facility and to use its best efforts to form a syndicate of financial institutions for the senior credit facility (including Bank of America) that is acceptable to the Borrowers (the Lenders).

The commitment of Bank of America and the undertaking of BAS to provide the services under the Commitment Letter are subject to the satisfaction of certain conditions precedent

The senior credit facility will consist of a (1) $25 million revolving credit facility with the term of maturity of 5 years, and (2) a $40 million acquisition facility, a term loan facility which may be borrowed in multiple drawdowns during the period from the closing date until the end of a ten year payment schedule. StoneMor and its general partner will serve as guarantors in connection with the Senior Credit Facility.

The proceeds of the senior credit facility are intended to be used (i) to refinance the Borrowers indebtedness under the 2004 credit facility described above; (ii) for working capital, capital expenditures, and other lawful corporate purposes; and (iii) to finance permitted acquisitions.

The Commitment Letter expired on March 31, 2007. On May 31, 2007 the Operating Company requested and received an extension of the Commitment Letter which extended the expiration date from March 31, 2007 to June 29, 2007. On June 21, 2007, the Operating Company requested and received an extension of the Commitment Letter from the extended expiration date of June 29, 2007 to July 31, 2007. On July 31, 2007, the Operating Company requested and received an extension of the Commitment Letter from the previous expiration date of July 31, 2007 to August 15, 2007.

Pursuant to the Fee Letter, the Operating Company is obligated to pay certain fees to Bank of America and BAS, for its account or for the account of the Lenders.

Senior Secured Notes. Concurrent with the closing of our initial public offering, StoneMor Operating LLC and its existing subsidiaries issued and sold $80.0 million in aggregate principal amount of senior secured notes. The net proceeds of the senior secured notes were used to repay a portion of our then existing indebtedness.

The senior secured notes rank pari passu with all of our other senior secured debt, including the revolving credit facility and the acquisition facility, subject to the description of the collateral securing the senior secured notes described below. The senior secured notes are guaranteed by the partnership, our general partner and any future subsidiaries of our operating company. Obligations under the senior secured notes are secured by a first priority lien and security interest covering substantially all of the assets of the issuers, whether then owned or thereafter acquired, other than specified receivable rights, excluding trust accounts and certain proceeds required by law to be placed in such trust accounts and funds held in trust accounts, our general partner s general partner interest in the Partnership and our general partner s incentive distribution rights under our partnership agreement, and a first priority lien and security interest covering those specified receivable rights, each as described above, of the issuers and the guarantors, whether then owned or thereafter acquired.

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The senior secured notes mature on September 20, 2009 and bear interest at a rate of 7.66% per annum. Interest on the senior secured notes is payable quarterly, commencing on December 20, 2004. There will be no principal amortization prior to the final maturity of the senior secured notes.

The senior secured notes are redeemable, at our option, at any time in whole or in part at a make-whole premium. The make-whole premium is calculated on the basis of a discount rate equal to the yield on the U.S. treasury notes having a constant maturity comparable to the remaining term of the senior secured notes, plus 100 basis points. The senior secured notes are not subject to any sinking fund provisions.

The senior secured notes limit the ability of the partnership, our general partner, our operating company and any of our other subsidiaries, among other things, to:

- enter into a new line of business;
- enter into any agreement of merger or acquisition;
- sell, transfer, assign or convey assets;
- grant certain liens;
- incur or guarantee additional indebtedness;
- make certain loans, advances and investments;
- declare and pay dividends and distributions;
- enter into certain leases;
- enter into transactions with affiliates; and
- make voluntary payments or modifications of indebtedness.

The note purchase agreement also contains financial covenants requiring us to maintain, on a rolling four-quarter basis:

- a ratio of consolidated cash flow, as defined in the note purchase agreement, to consolidated interest expense of not less than 3.5 to 1.0 for the four most recent quarters;

a ratio of total funded debt on the last day of each quarter to consolidated cash flow of not more than 3.5 to 1.0 for the four most recent quarters (except as described below); and

consolidated cash flow of at least $21.0 million. Our minimum consolidated cash flow will be increased by 80% of any consolidated cash flow acquired in an acquisition.

The note purchase agreement was amended in November 2004 to amend the leverage ratio from 3.5 to 3.75 to 1 until September 30, 2005 at which time it reverted back to 3.5 to 1. As of June 30, 2007, the Company was in compliance with all debt covenants.

For purposes of determining our compliance with the covenants described above, total funded debt and consolidated cash flow are defined in the note purchase agreement in the same manner as they are defined in our new credit agreement.

Each of the following is an event of default under the note purchase agreement:

failure to pay any principal, interest, fees, expenses or other amounts when due;

failure of any of our representations and warranties to be materially correct;

failure to observe any covenant included in the note purchase agreement beyond specified cure periods in specified cases;

the occurrence of a default under other indebtedness of the partnership, our general partner, our operating company or any of our other subsidiaries;

the occurrence of specified bankruptcy or insolvency events involving the partnership, our operating company, our general partner or our other subsidiaries;

a change of control; or

the entry of judgments against the partnership, our general partner, our operating company or any of our other subsidiaries in excess of certain allowances.

Change of control is defined as the occurrence of any of the following events:

any two of our chairman, chief executive officer or chief financial officer on the closing date of the senior secured notes offering cease to hold such positions unless approved by the requisite noteholders;

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any person or group that did not hold any equity interests in the general partner or the partnership on the closing date of the senior secured notes offering acquires 20% or more of the equity interests in the partnership or the general partner;

the general partner ceases to be our sole general partner;

the partnership ceases to own 100% of the operating company; or

the operating company ceases to own 100% of the other borrowers.

The initial offering of the senior secured notes was not registered under the Securities Act, and the senior secured notes may not be resold absent registration or an available exemption from the registration requirements of the Securities Act. The holders of the senior secured notes do not have registration rights. The senior secured notes are not listed or quoted on any national securities exchange or association.

Intercreditor and Collateral Agency Agreement. In connection with the closing of the credit facility and the private placement of the senior secured notes, our general partner, the partnership, our operating company, our other subsidiaries, the lenders under the new credit facility, the holders of the senior secured notes and Fleet National Bank, as collateral agent, entered into an intercreditor and collateral agency agreement setting forth the rights and obligations of the parties to the agreement as they relate to the collateral securing the new credit facility and the senior secured notes.

Capital Expenditures

The following table summarizes total maintenance capital expenditures and expansion capital expenditures, including for the construction of mausoleums and for acquisitions, for the periods presented (in thousands):

	Six Months Ended June 30,	
	2006	**2007**
Maintenance capital expenditures	$ 1,527	$ 972
Expansion capital expenditures	3,352	2,197
Total capital expenditures	$ 4,879	$ 3,169

Pursuant to our partnership agreement, in connection with determining operating cash flows available for distribution, costs to construct mausoleum crypts and lawn crypts may be considered to be a combination of maintenance capital expenditures and expansion capital expenditures depending on the purposes for construction. Our general partner, with the concurrence of its conflicts committee, has the discretion to determine how to allocate a capital expenditure for the construction of a mausoleum crypt or a lawn crypt between maintenance capital expenditures and expansion capital expenditures. In addition, maintenance capital expenditures for the construction of a mausoleum crypt or a lawn crypt are not subtracted from operating surplus in the quarter incurred but rather are subtracted from operating surplus ratably during the estimated number of years it will take to sell all of the available spaces in the mausoleum or lawn crypt. Estimated life is determined by our general partner, with the concurrence of its conflicts committee.

Seasonality. The death care business is relatively stable and predictable. Although we experience seasonal increases in deaths due to extreme weather conditions and winter flu, these increases have not historically had any significant impact on our results of operations. In addition, we perform fewer initial openings and closings in the winter when the ground is frozen.

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Part II Other Information

Item 6. Exhibits

Exhibit Number	Description
10.1	Third Amendment to Credit Agreement, dated May 7, 2007, by and among StoneMor GP LLC, StoneMor Partners L.P., StoneMor Operating LLC and its subsidiaries set forth on the signature page to the Third Amendment to the Credit Agreement, the Lenders party to the Third Amendment to the Credit Agreement and Bank of America, N.A., as Administrative Agent for the benefit of the Lenders, as Collateral Agent for the benefit of the Lenders and other Secured Creditors, as Swingline Lender and as Letter of Credit Issuer (incorporated by reference to Exhibit 10.2 of Registrant s Quarterly Report on Form 10-Q filed on May 10, 2007).
10.2**	Fourth Amendment to Credit Agreement, dated June 29, 2007, by and among StoneMor GP LLC, StoneMor Partners L.P., StoneMor Operating LLC and its subsidiaries set forth on the signature page to the Fourth Amendment to the Credit Agreement, the Lenders party to the Fourth Amendment to the Credit Agreement and Bank of America, N.A., as Administrative Agent for the benefit of the Lenders, as Collateral Agent for the benefit of the Lenders and other Secured Creditors, as Swingline Lender and as Letter of Credit Issuer.
10.3**	Fifth Amendment to Credit Agreement, dated July 31, 2007, by and among StoneMor GP LLC, StoneMor Partners L.P., StoneMor Operating LLC and its subsidiaries set forth on the signature page to the Fifth Amendment to the Credit Agreement, the Lenders party to the Fifth Amendment to the Credit Agreement and Bank of America, N.A., as Administrative Agent for the benefit of the Lenders, as Collateral Agent for the benefit of the Lenders and other Secured Creditors, as Swingline Lender and as Letter of Credit Issuer.
10.4	Commitment Letter, dated March 15, 2007, by and between StoneMor Operating LLC, all of its existing and future direct and indirect subsidiaries and Bank of America, N.A., Banc of America Securities LLC (incorporated by reference to Exhibit 10.1 of Registrant s Current Report on Form 8-K filed on April 9, 2007).
10.5	Fee Letter, dated March 15, 2007, by and between StoneMor Operating LLC and all of its existing and future direct and indirect subsidiaries and Bank of America, N.A., Banc of America Securities LLC (incorporated by reference to Exhibit 10.2 of Registrant s Current Report on Form 8-K filed on April 9, 2007).
10.6*	StoneMor Partners L.P. Long-Term Incentive Plan, as amended May 10, 2007(incorporated by reference to Exhibit 99.1 of Registrant s Form S-8 filed on June 19, 2007)
10.7**	Extension Letter, dated May 31, 2007, by and between StoneMor Operating LLC, Bank of America, N.A. and Banc of America Securities LLC.

10.8**	Extension Letter, dated June 21, 2007, by and between StoneMor Operating LLC, Bank of America, N.A. and Banc of America Securities LLC.
10.9**	Extension Letter, dated July 31, 2007, by and between StoneMor Operating LLC, Bank of America, N.A. and Banc of America Securities LLC.
31.1	Certification pursuant to Exchange Act Rule 13a-14(a) of Lawrence Miller, Chief Executive Officer, President and Chairman of the Board of Directors
31.2	Certification pursuant to Exchange Act Rule 13a-14(a) of William R. Shane, Executive Vice President and Chief Financial Officer
32.1***	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350) and Exchange Act Rule 13a-14(b) of Lawrence Miller, Chief Executive Officer, President and Chairman of the Board of Directors
32.2***	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350) and Exchange Act Rule 13a-14(b) of William R. Shane, Executive Vice President and Chief Financial Officer

* Management contract, compensatory plan or arrangement.
** Previously filed.
*** Previously furnished.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	STONEMOR PARTNERS L.P. By: StoneMor GP LLC its general partner
December 13, 2007	/s/ Lawrence Miller Lawrence Miller Chief Executive Officer, President and Chairman of the Board of Directors (Principal Executive Officer)
December 13, 2007	/s/ William R. Shane William R. Shane Executive Vice President and Chief Financial Officer (Principal Financial Officer)

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Exhibit Index

Exhibit Number	Description
10.1	Third Amendment to Credit Agreement, dated May 7, 2007, by and among StoneMor GP LLC, StoneMor Partners L.P., StoneMor Operating LLC and its subsidiaries set forth on the signature page to the Third Amendment to the Credit Agreement, the Lenders party to the Third Amendment to the Credit Agreement and Bank of America, N.A., as Administrative Agent for the benefit of the Lenders, as Collateral Agent for the benefit of the Lenders and other Secured Creditors, as Swingline Lender and as Letter of Credit Issuer (incorporated by reference to Exhibit 10.2 of Registrant s Quarterly Report on Form 10-Q filed on May 10, 2007).
10.2**	Fourth Amendment to Credit Agreement, dated June 29, 2007, by and among StoneMor GP LLC, StoneMor Partners L.P., StoneMor Operating LLC and its subsidiaries set forth on the signature page to the Fourth Amendment to the Credit Agreement, the Lenders party to the Fourth Amendment to the Credit Agreement and Bank of America, N.A., as Administrative Agent for the benefit of the Lenders, as Collateral Agent for the benefit of the Lenders and other Secured Creditors, as Swingline Lender and as Letter of Credit Issuer.
10.3**	Fifth Amendment to Credit Agreement, dated July 31, 2007, by and among StoneMor GP LLC, StoneMor Partners L.P., StoneMor Operating LLC and its subsidiaries set forth on the signature page to the Fifth Amendment to the Credit Agreement, the Lenders party to the Fifth Amendment to the Credit Agreement and Bank of America, N.A., as Administrative Agent for the benefit of the Lenders, as Collateral Agent for the benefit of the Lenders and other Secured Creditors, as Swingline Lender and as Letter of Credit Issuer.
10.4	Commitment Letter, dated March 15, 2007, by and between StoneMor Operating LLC, all of its existing and future direct and indirect subsidiaries and Bank of America, N.A., Banc of America Securities LLC (incorporated by reference to Exhibit 10.1 of Registrant s Current Report on Form 8-K filed on April 9, 2007).
10.5	Fee Letter, dated March 15, 2007, by and between StoneMor Operating LLC and all of its existing and future direct and indirect subsidiaries and Bank of America, N.A., Banc of America Securities LLC (incorporated by reference to Exhibit 10.2 of Registrant s Current Report on Form 8-K filed on April 9, 2007).
10.6*	StoneMor Partners L.P. Long-Term Incentive Plan, as amended May 10, 2007(incorporated by reference to Exhibit 99.1 of Registrant s Form S-8 filed on June 19, 2007)
10.7**	Extension Letter, dated May 31, 2007, by and between StoneMor Operating LLC, Bank of America, N.A. and Banc of America Securities LLC.
10.8**	Extension Letter, dated June 21, 2007, by and between StoneMor Operating LLC, Bank of America, N.A. and Banc of America Securities LLC.

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